RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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SPECIAL INFLATION - DEFLATION ISSUE

December 29, 1982 — LETTER 851

Dec. 17, DJIA 1011.50; PTI 1396; A-D Ratio –20.05
Dec. 23, DJIA 1045.07; PTI 1412; A-D Ratio –19.76

THE MARKET: Let's take a cold, hard look at the Averages, let's analyze them from a dispassionate Dow Theory standpoint. The D-J Industrial Average advanced to a closing high of 1065.49 on November 3. The Transportation Average rallied to a closing high of 452.19 on November 5 (see page 1 chart). A shallow three-week decline followed, whereupon the Averages entered a new rallying phase.

On December 7 the Transports rose to a record high of 464.55. The new Transport high was *not confirmed* by Industrials. Following this non-confirmation the Averages retreated. But whereas the Industrials dropped fractionally below their November 23 low to 990.25, the Transports gave ground only reluctantly.

This leaves us with two well-defined sets of markers. On the upside we have the highs of 1065.49 (Industrials) and 464.55 (Transports). On the downside we have the lows of 990.25 (Industrials) and 416.29 (Transports). The next important market move will be signaled when either of these twin points is penetrated.

The head-and-shoulders pattern in the Dow is now widely recognized. The wide recognition means (as I said in the last Letter) that we should treat the formation with some skepticism—or at least that we should expect the market to come up with a few tricks (one of the tricks is already seen—the head-and-shoulders pattern has been extending and extending). Rather than place undue emphasis on the toppy pattern, I would prefer to emphasize the downside support points, the 990.25 level for Industrials and the 416.29 level for Transports. ONLY a breaking of BOTH of these supports will result in a bearish designation for the market.

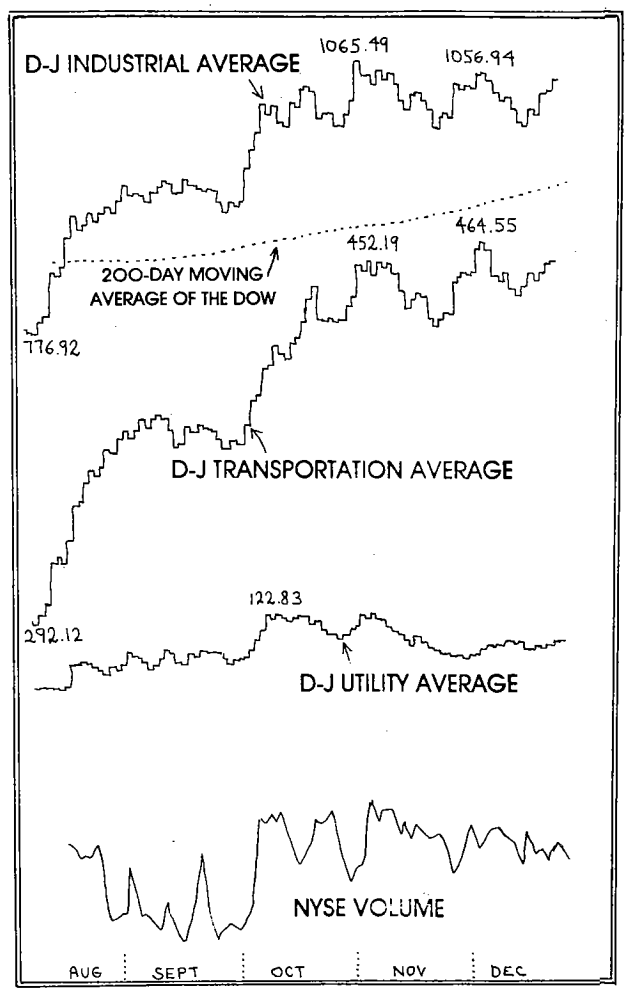
Now, let's turn to the daily chart of the PTI. It is notable that the bull trend in the PTI is intact—this despite the fact that both the D-J Industrials and the A-D ratio have violated their rising trendlines. On December 7 the PTI recorded a peak of 1401. This was followed by erratic market action and a 66 point drop in the Dow. But on December 23, the PTI rose to a new recovery high of 1404. This was followed on December 24 with a PTI surge to another new high of 1412.

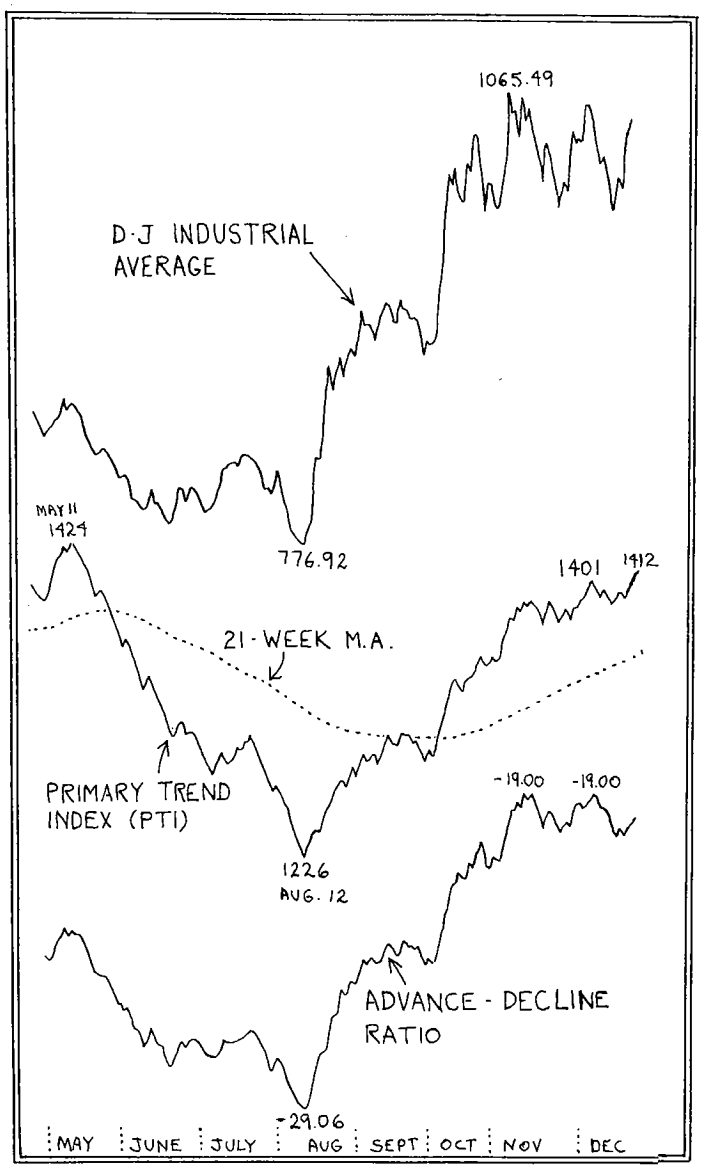
I've written this dozens of times, but for the benefit of newer subscribers I'll repeat it. There will be no meaningful market sell-off as long as the PTI is in a rising trend. By the same token, there will be no significant rise when the PTI is in a declining trend. At present, with the PTI recording new recovery highs, it is clear that the pressure is to the upside. This rising force is pressing the short sellers to the wall (which may account for some of the spikes to the upside such as December 17 and 21).

Again, note that despite weakness in the stock averages, despite the toppy appearance of the A-D ratio, despite the unimpressive level of daily new highs, despite heavy insider selling, the PTI continues to record new highs. One of the fascinating aspects of the PTI is that it pays NO ATTENTION to rumors, hopes,

FRONT PAGE COMMENT: It's Christmas time, thankful time, appraisal time. And I wonder; if I had to live by a single rule, what would that rule be? My answer: "Live by the truth." I sincerely feel that I have spent most of my life struggling to uncover the truth about myself—and the world. The search for the truth, in my opinion, makes life worthwhile. "Seek and ye shall find," said the Master, and I absolutely believe that.

If politicians, businessmen, workers, professional people, students—all lived by the truth the world would be a different place. Newer subscribers sometimes wonder why I rant and rave against debts and deficits. The answer is easy: our banks, our politicians, our citizens, our corporations have borrowed billions that (in truth) they know they will never be paid back. That borrowing is simply a lie, it's an act of stealing against my kids and your kids and their kids. A lie (even an economic lie) is the exact opposite of the truth. And just as the truth binds, integrates and makes healthy, a lie festers, rots away and destroys. And that is why economically, I am convinced that what we have done over the last thirty years in debt—will come back to haunt us. Nothing is further from the truth than the debt we have built up during the Twentieth Century.





forecasts, sentiment indicators or monetary statistics. The PTI is based on my own amalgam of technical market indicators, and at times it seems to take on a life of its own.

The current reading of the PTI is clear enough–the trend is up, and as long as the PTI is making new highs the pressure will be against the bears and in favor of the bulls.

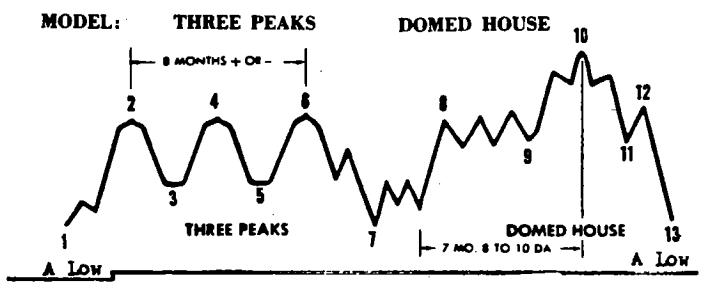
TRADING RANGE: One of the centerposts of my market philosophy states: "The market will do whatever it has to–to frustrate the greatest number of investors at any given time."

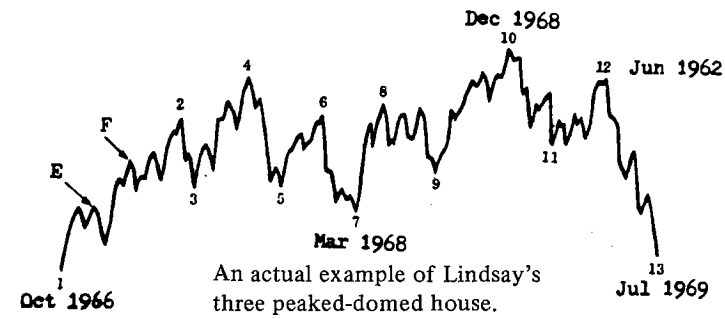
Recently, I have seen a most interesting (but frustrating) market scenario put forth by two respected advisory organizations. This scenario calls for a two to three year trading range–to be followed by a final washout on the downside.

"Space-Time Forecasting" (PO Box 772, Setauket, NY 11733) bases its work on a 36-year cycle for the stock market (having to do with magnetic disturbances in the solar field). They liken the current situation to the situation 36 years ago in 1946. I was particularly interested in this analysis because I remember the period around 1946 so well. At that time World War 11 had just ended, a quick but violent bear market was in progress, and everyone was talking about the expected "post-war depression." The Dow had hit a high of 212 in April of 1946 (36 years ago). By October the Dow had plunged to 163. During the next three years the Dow moved up and down within the trading range of 212 to 163. Finally, in 1949, the Dow sank fractionally below the lower band of the trading range to the famous 161.60 low of June 13, 1949. From that low a great bull market began.

It is of note that 36 years prior to 1946, in 1910, another trading range market began. In those days the higher priced and more important Average was the D-J Rail average. The 1910 high for the Rail Average was 129, the low in 1910 was 105. During the next two years the Rails held within that 24 point range. Finally, in June of 1913 the Rails plunged below the lower zone of the range to a final low of 100.50. The Rails then rallied, but the continuity of the situation was interrupted in 1914 by the outbreak of World War 11 and later in that year the stock market was closed.

Another successful veteran analyst has come up with a forecast not too different from Space-Time. This is George Lindsay (Lindsay's Opinion, Ernst & Co., 100 Wall St., NYC 10005). Lindsay believes the market is going into an extended trading-type formation which has occurred 17 times since 1898, a formation which he terms "the three peaks and domes house." I illustrate this formation here. Lindsay expects a choppy market while his formation works its way. He is looking for a trading range of around 200 points in the Dow.





An actual example of Lindsay's three peaked-domed house.

Lindsay believes that his three peaked-domed house formation will give way to a bear market due around 1984. So runs the forecasts of two intelligent and original services–a trading range for a few years followed by a breaking of the lower end of the range around 1984-85 and (in the case of Lindsay) a bear market in or around 1984.

If the above scenarios come to pass, how would history classify the movements? Going back to 1946-49, some observers insist that a bull market ended at 212 on the Dow in 1946, and a bear market then took the Dow to a final low of 161 in 1949. Others believe that the 1946 bear market ended in 1947, that a mini-bull market took the Dow to a high of 193 in 1948, whereupon a mini-bear market tumbled the Dow to a low of 161 in June, 1949. The outcome for each belief was the same. It was a high

in 1946, a frustrating and confusing series of rallies and declines, and a final and very important bear market low in 1949.

If George Lindsay or Space-Time is correct, we can expect a trading range market to extend to 1984 or 1985, with a final bear market low in that time frame.

I'VE LEARNED: I started Dow Theory Letters back in 1958, next year will mark twenty-five years that I've been writing these reports. That's a long time for anyone in this business. And along the way, believe it or not, I've learned a few things.

Last week I sat down and asked myself, "Russell, you've put thousands of hours into your studies of the markets and investors reactions to the markets. What have you learned that may be helpful to your subscribers? So I decided to put down a few of my more lucid observations. Here they are.

(1) There are no immutable rules pertaining to the stock market. There are a lot of probables on Wall Street, but no certainties. Just about the time a rule gathers a universal following, it ceases to work. The rule is that there are no totally reliable rules, formulas or systems.

(2) Every investment position exacts a psychic toll. I don't care whether you buy 500 shares of Telephone or 1000 shares of Warner Communications or a million dollars worth of government bonds or a home in Coral Gables, each of those moves will take something out of your guts. Therefore, never make a move that your insides can't handle. And be prepared to take the tension or anxiety that is generated by the move. If you can't stomach it, don't do it! I know many people who have lost their shirts because they have gone over their heads in an investment.

(3) This may come as a shock to some people but you can lose money following a Wall Street guru (otherwise known as a market genius). I've seen it happen over and over again. Yes, there are geniuses on Wall Street, but there are no geniuses who are right all the time. So if you're looking for a financial savior, forget it. He or she doesn't exist–and never will.

(4) The least understood but most important concept in investing is risk-reward. Successful investors always understand risk-reward. The basis of risk-reward is simple–how much can I make versus how much can I lose. The best risk-reward situation occurs when values are temporarily depressed due to unusual circumstances. Fortunes have been made, for instance, buying great values during panics. One of the smartest and richest men in the nation, Warren Buffett (he owns half of Berkshire Hathaway) has made tens of millions operating on this principle.

(5) Understand the fortune-making properties of compound interest. Nothing in investing is surer than that compounding money over time will make you rich (particularly in the era of high interest rates). This method, however, requires steadfastness of purpose and great patience.

(6) Here's a rule that I've seen proved over and over. Greed, over-speculation and "positions that are too large" tend to be disastrous. Never go over your head with a position, regardless of how good that particular item may appear. The market has an uncanny instinct for destroying pigs. It invariably leads them to slaughter.

(7) This is a rule that I've learned to respect over the years. It's absurdly simple, but profound. The rule is that "The market can do anything." Stick around Wall Street long enough and you'll learn the value of this rule (and next time somebody gives you a tip on a "sure thing" you might recite this rule to him or her).

(8) Occasionally, very occasionally, you're going to have to deal with a big primary bear market. When that happens, you've got to protect your assets. Because when the big bear market hits, the work and savings of a lifetime can be decimated–and the chances are you'll never make a full financial recovery. Therefore, don't pooh pooh the big bear. When he shows (and it may occur only a few times in your lifetime) you must get out of his way. Riding out a major bear market is the financial world's counterpart to suicide.

INVESTMENT POSITION: I've been giving a great deal of thought to the following. Sophistication in the stock market has increased tremendously over recent years. Furthermore, dissemination of data and information has increased almost geometrically. What one analyst knows today, the whole world knows tomorrow.

The best thing I ever did was (1) develop the PTI, and (2) keep the formula for the PTI secret. More and more I feel that the best investment policy is simply to follow the PTI with stock purchases when the PTI turns up and to switch to cash or money market funds when the PTI turns down. The position of the PTI above or below its 21-week moving average can be of great help in determining the trend of the PTI.

At present the PTI is bullish, but it is well to note that gold is outperforming the stock market on a relative trend basis. I have recommended buying gold and gold shares, specifically ASA, Campbell and gold coins. ASA has now almost doubled since I first recommended it, while Campbell is up almost 50%. In the last Letter I recommended a few no-load gold funds, specifically Fidelity Precious Metals and United Services Gold Shares. Hold to the gold position. The gold situation remains bullish.

HOLDING BACK DISASTER: The truth, the dreaded truth is that the US banking system and most of the world's banking systems are BROKE. The banks have lent out a huge percentage of the capital and reserves to nations that will never, ever pay the money back. The problem: how to keep these busted loans on the books without declaring them null and void. It amounts to probably the biggest financial cover-up in world history.

For instance, the nine largest banks in the US have loaned Mexico an amount equal to 50% of their entire capital and reserves. As a result, 1600 banks (all loaned money to Mexico) are now being asked to participate in Mexico's rescheduling. A few hundred small US banks (hoping to keep up) joined in the Mexican loans. And worse, these banks have made dubious business and personal loans before the Mexican peso was devalued (and nearly destroyed). Result–a potential fiasco.

Here's a run down of the 10 largest banks and their Mexican exposure. And remember, these are loans to Mexico alone. The story goes on and on with other loans to other countries.

The Exposure of the Ten Largest U.S. Banks in Mexico
(in Billions of Dollars)

Bank	Loans Outstanding	Shareholders' Equity	Mexican Exposure as Percentage of Shareholders' Equity
Citicorp	$2.3	$4.3	53.5
Bank of America	2.4	4.1	58.5
Chase Manhattan	1.5	2.6	57.7
J. P. Morgan	1.1	2.4	45.8
Manufacturers Hanover	1.7	1.9	89.5
Continental Illinois	0.6	1.7	35.3
Chemical	1.3	1.5	86.7
First Interstate	0.7	1.6	43.7
Security Pacific	0.5	1.3	38.5
Bankers Trust	0.8	1.2	66.7

Now all this has not been lost on the Fed. In fact, the Fed has been on the edge of panic for months. As a result, the Fed has been flooding the banks with reserves while opting for more and bigger international loans. Why more? Well, these are loans to pay off interest in the hopes that the whole mess can be warded off. The goal is clear–the Fed knows that the US and world banking system are under water. But if nobody DEFAULTS, if nobody DECLARES bankruptcy, then the bank loans can continue to be carried on the books at par value!

Of course, the real test, the acid test, would be to put those foreign loans up for sale. Put those loans on the market, and what do you think the Mexican loans or the Argentinian loans or the Brazilian loans would bring? Would they bring $.25 on the dollar? No one knows, but one thing is certain–the banks DON'T WANT TO FIND OUT. No, they simply want to keep the loans on the books at par and hope that somehow everything will turn out all right.

In all Latin America owes about $300 billion. But that's not the end of the problem. Europe is also in bad shape. The December 14 *Wall Street Journal* ran a front page article which examined the European situation. And it is clear that most of Europe is running huge deficits as they seek to continue their social programs in the face of a stubborn recession. As the Journal put it, "While the financial world is preoccupied with debt-ridden governments in Latin America and Eastern Europe, Denmark and other capitalist European nations have been sinking into an equally deep pool of government backed foreign borrowings. Ireland, Belgium, Greece, Italy and Portugal and Spain are also heavily indebted to foreign lenders and falling ever deeper in debt."

Below is the London Economist's description of the Mexican situation, and you will note that it is not going to be as easy as one might think:

> For although the IMF is prescribing severe retrenchment that could cut Mexico's gdp next year by perhaps 5%—and therefore the living standards of 75m people by 8% or 9%—its programme can work only if there is a sizeable increase of new lending in addition to rescheduling of old debt and the IMF credit of $3.9 billion over three years. Of that new lending, some $6.5 billion between now and end-1983 must come from the banks, says the IMF. Without it, either the dose of demand deflation will have to be even bigger and living standards drop even more or Mexico will have to renege on its debts. So the IMF's managing director, Mr Jacques de Larosière, has been using all his French diplomatic skills to persuade the 1,600 banks to whom Mexico already owes money, and which therefore have an interest in getting the country on its feet again, that they should chip in a bit more. Say 8% more each. This was hardly what the bankers had in mind when they said their prayers for the IMF mission. They wanted a rescue operation, not more sleepless nights.

What's the solution to this world debt fiasco? Simple: the banks have to be saved, the debtor nations have to be held up, the loans have to be kept alive. So what do we do? We arrange more credits! The latest wrinkle being advanced to hold up the world again involves massive infusions of new credit–mostly US credit. The IMF is to receive a 50% boost in its reserves. Then the World Bank is to be mobilized and the Bank of International Settlements is to be spurred. The important thing is to arrange new loans so that older loans on the books can be serviced and interest on those loans paid off.

Wherever you look, whether it's Social Security or New York City or Brazil or Mexico or Italy the word is–more credits, more loans, somehow keep the debt monster from sinking.

And what is the finale, what will the ending of the debt-drama be? No one knows. But the lessons of history are clear enough. All debt-balloons in history have ultimately burst. All Ponzi schemes (and we're witnessing a world Ponzi scheme in action today) come to an end. As I see it, we have one of two scenarios to look forward to: (1) A debt collapse and world deflation as tens of billions of dollars of debt is defaulted upon. (2) A world move to hyper-inflation as the debt is washed away in devalued and inflated currencies (mostly dollars). Then a deflation as it is realized that hyper-inflation is just another way of wiping out wealth. Remember, debt is a liability on one side of the ledger and an asset on the other side. What you owe me I treat as an asset. If what you owe me is inflated away, I have lost an asset. And that's why inflation (in a debt-ridden world) means a wipe-out of assets. In a world piled as high as ours is with debt, any move towards hyper-inflation would mean a panic in the debt markets and a world collapse.

What do we do about it? Ah, that is the question, and there is no good answer. An imperfect answer is that we *try to survive through diversification.* We own cash, we own some gold, some stocks, a house, some collectibles. "Why cash?" you ask. We own cash in case there is a deflationary collapse. "Why gold?" Easy, in case there is a move towards hyper-inflation. "Why stocks?" Stocks in case there's a flight to equity instead of paper money–or in case the economy really does pick up again. And why a house? So we have a place to live in while we watch this whole, tragi-comic drama unfold.

Question: Russell, I note that in both cases above that you postulate an ending with a deflationary collapse. Why own gold in that case?

Answer: Simply because gold is real money, and with the billions in paper credits being extended today, more and more investors are going to want to own something real to hold. In a deflationary collapse, I don't know how the dollar would

hold up. There might be such a mass of debt against the dollar that international investors would run out of the dollar. No one knows what would happen to the dollar if there was a world panic and deflationary collapse.

But gold represents an interesting alternative, and it's worth owning some. Remember, we are facing an unprecedented situation, a situation wherein the whole world is in hock and most of the world is flat broke. Gold has been around for 5,000 years while the dollar and the peso and the Swiss franc and the mark are relatively new items. In the final analysis, gold is the only money that is not managed by politicians. That, in a nutshell, is its greatest strength.

NOTES & QUOTES: The only thing politicians dislike more than cutting spending–is cutting spending during a recession. So what's the alternative? The alternative is raising taxes. And make no mistake about it, taxes are being raised–at the city, the country, the state and the federal level. Here's how the magazine, *Human Events,* sees the situation (Dec.11):

> Scan the headlines. Everywhere "taxes" are in vogue. Governors in a dozen states speak of the "necessity of finding new revenue."
>
> The mayor of New York, a city that almost destroyed itself with taxes, is talking of reviving the impost on stock transactions.
>
> Nationally, Americans will feel a triple blow in less than a month: Social Security tax increases, a new nickel-a-gallon gasoline tax, the $99-billion-Reagan–Dole "reform."
>
> Further acceleration of Social Security taxes, "to save the system," remains a probability. "If I find him, I will send him on a one-way trip to the moon," the President told congressional Republicans of the aide who let loose that Thanksgiving turkey—the "option" to raise taxes on unemployment benefits.
>
> **But the mindset of those who would raise taxes on the unemployed is of a piece with that of the demoralized Republicans casting everywhere for new taxes to avert the horrendous future. What is that future?**
>
> Two-hundred-billion-dollar deficits —"as far as the eye can see"—according to Martin Feldstein, the President's economic adviser.

* *

"Living on the Default Line," an article by Paul Erdman, appears in the current issue of *Playboy.* Following is an interesting squib from that most interesting article.

> To put the current situation into perspective: If just one more major country—Brazil, a borderline case—were to join three other countries already in *de facto* default—namely, Mexico, Argentina and Poland—the endangered loans by the Western financial system to that foursome alone would total $231 billion. If you added up the amounts that all of the Third World and Eastern Europe owe to us (both of those regions being regarded almost in their entirety as potential financial basket cases), you would end up with a grand total of $735 billion.
>
> American banks are probably on the line for a third of that.

* *

On January 19 I'll be speaking at a seminar sponsored by E.F. Hutton. The place will be the Hyatt Islandia in San Diego. With me will be Mr. David Hillson, Hutton's chief gold analyst. The subject will be gold, but as usual I'll probably talk about a lot of items including gold. The price is a reasonable $10 per person or $15 a couple. For reservations you can call Dawn Hlivac at 619/459-3232. It should be interesting, and I can almost guarantee that the weather will be great (it always is here). You'll also be able to check the truth of the statement, "When E.F. Hutton talks. . . . ." Oh yes, I'm on my own. Hutton (as always with this honorable outfit) has left me absolutely free to say what I want.

* *

The great Social Security debate (a cop-out is more like it) drags on. But few people comprehend what an onus this unfunded "chain letter scheme" is. For instance, since 1949 SS taxes have increased 6,480% while average wages have increased 470%. SS spends more annually than ALL American corporations spend on plant, equipment, research and development. In 1983 employers will spend on SS payroll taxes an amount equal to 50% of ALL corporate profits. Right now 25% of American workers spend MORE on SS than on income taxes. Social Security is the financial counterpart of Pac-Man; its eating up the nation–and neither the politicians nor the committees have the guts to squarely attack the problem.

* *

San Diego's Padres have just signed Steve Garvey for $6.5 million for a five year contract. This kind of pay is turning baseball into a losing proposition for owners. In fact only four teams officially made money in baseball last year. Moreover, because of million dollar and up losses, baseball teams are leaving the hands of individual owners (they can't take those losses) and going into the hands of corporations or syndicates. Over the past three years 10 baseball teams have changed hands. Here are some prices: Cleveland Indians (1977) sold to Turner Communications for $12 million. Boston Red Sox (1978) sold to the Sull Van-Leroux group for $15.5 million. Houston Astros (1979) sold to McMullen partners for $19 million. Chicago Cubs (1981) sold to Reinsdorf partners for $20.5 million. Philadelphia Phillies sold to Taft Broadcasting (1981) for $30 million.

GOLD: US taxpayers (via IMF and World Bank loans plus massive Federal Reserve infusions of credit) are holding up the world economy. A large part of the world and the world's banking system is so hopelessly broke that only loans, loans and more loans (plus copious quantities of confidence) will "save" it. When you're drowning in debt, only one thing will ease the pain–and that's monetary inflation. But at this point, the world economy is so sick, so debt-ridden, so bogged down in interest payments, that it's a real question as to whether inflation will take.

Gold is trying to measure the outcome. Gold notes the Fed's pumping: it notes the gigantic new credits being issued to Mexico,

Brazil, Argentina, Costa Rica, etc., and it knows that this money is going down the drain. It knows that this is money that will be lost forever. Gold sees the CRB Commodity Index within points of its low for the year, this despite all the frantic pumping efforts. And gold wonders, "Will the world inflate again—or have we passed the point of no return?"

And I ask myself the same question. "Can they pump this debt-ridden carcass up again, or is the body so sick, so choked on debt charges that no amount of credits will put life into it?" And nobody knows the answer. Nobody knows whether the Fed, the World Bank, the IMF and the Bank for International Settlements can succeed in holding off the forces of world depression.

Gold opinions are flying around wildly these days.Perhaps the best publicized opinion has been put forth by two very pretty girls from Costa Rica, the Aden sisters. I've known the Adens for years and have a lot of respect for their very intelligent analyses. The Aden's are talking $3000 gold sometime around 1985. If that's true, they're also talking about the destruction of the dollar as we know it.

On the other side of the fence is my old buddy, Sir Harry Schultz (whom I hope to see in London this spring). In a report received today, Harry quotes Campbell Gorrie (of Australia) to the effect that "the 1982 inflation low of 4% is back to 1972 levels. Moreover, monetarists are in control throughout the West. This implies that although we may see an inflation rate between 8 and 10% briefly during 1983-84, this level is likely to be the high point for the next 4-5 years."

To which I answer, "Maybe." The Fed is pumping away and if our economy doesn't pick up noticeably in the next few months I don't know how far they'll go in their effort to ward off a world collapse (yes, I think the Fed is worried about collapse). The trouble is that the pumping the Fed does now will probably "take" about 6 to 12 months from now, and at that time the Fed may have to slam on the brakes again (which, of course, is every bond-holder's nightmare).

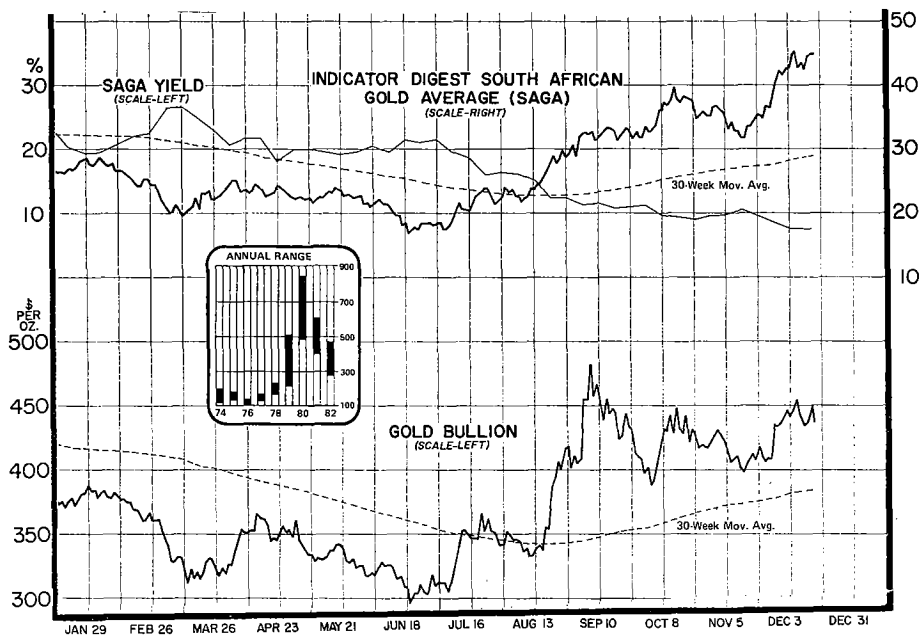
Ashby Bladen (Forbes, Jan. 3) headlines his marvelous column as follows: "Disinflation is not in the cards. The alternatives: deflation and hard times; or bailouts, hyperinflation and economic decline." I am including the following paragraph from Bladen's current Forbes piece. Read it carefully: the story of 1982-84 is in this paragraph and the paragraph is almost worth memorizing.

> If market forces were allowed to work without further political interference, we would clearly be on the brink of deflation and hard times. But the rising trend of bankruptcies and foreclosures, along with the financial crises in agriculture and Social Security, guarantee that market forces will not be left alone to work themselves out. If the government now decides to bail everybody out by making subsidized credit universally available to overextended businesses, homebuyers and farmers, and by paying Social Security out of general revenues, it will restore everybody's faith that borrowing in order to buy inflation hedges is a game you can't lose. The winners get to keep their winnings, but losers pass their losses on to the taxpayers. That will send the rate of debt formation through the roof, precipitate hyperinflation and convince everybody that saving is a game you can only lose. Credit will then be used exclusively to finance inflation hedges, bringing economic progress to a screeching halt.

To turn to the technical picture for gold, this chart shows the gold shares far out-running the price of bullion. The question: will bullion catch up to the stocks or will the stocks come back to dovetail with bullion? My own belief is that the whole gold move is legitimate and that gold will (in due time) break out and follow the gold shares up.

If there's a method for following gold that I haven't tried, I'd like to know what it is. Different methods work at different times, and during the past year or so I've found that the moving average approach has been the most helpful. Bullion continues to act bullishly on the basis of my moving averages studies. As of this writing, the primary or 50-week MA for gold is 401. The intermediate or 13-week MA is 425. And the short-term MA (5-week MA) is 438. Gold on a spot basis is holding ABOVE the 5-week MA, and this is good action.

There are thousands of people now playing gold futures, and when you've got a few contracts of anything the item never moves up fast enough. But for those patiently holding bullion two points a week is fast enough—and that's the rate the 50-week MA is moving up. Two points a week is 100 points a year—something to think about. Of course, in my experience if anything moves up steadily, then in time the speculators will hop aboard. From there on, matters heat up, and ultimately the item starts smoking. Gold will probably turn speculative somewhere ahead. In the meantime, it's creeping, creeping.



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